D.T.E. 03-79

Petition of Bay State Gas Company, pursuant to G.L. c. 164, § 94A, for approval of a Precedent Agreement with Tennessee Gas Pipeline Company governing Bay State Gas Company's acquisition of capacity for its Lawrence Division.

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FOR: BAY STATE GAS COMPANY
Petitioner

I. INTRODUCTION

On August 7, 2003, Bay State Gas Company ("Bay State" or "Company"), pursuant to G.L. c. 164, § 94A, submitted a petition ("Petition for Approval") to the Department of Telecommunications and Energy ("Department") for approval of a Precedent Agreement ("Tennessee Precedent Agreement") and related letter Agreement between Bay State and Tennessee Gas Pipeline Company ("Tennessee"). This case has been docketed as D.T.E. 03-79.

On October 8, 2003, pursuant to notice duly issued, the Department conducted a public hearing to afford interested persons the opportunity to comment on the Company's proposal. The evidentiary record consists of Bay State's Petition (Exh. BSG-1), the testimony and exhibits of Francisco C. DaFonte, Director of Energy Supply Services for Bay State Gas Company, premarked as Exh. FCD-1 through Exh. FCD-7, and Bay State's responses to the Department's information requests (Exh., DTE 1-1 through Exh. DTE 1-13). On October 21, 2003, the Company submitted a brief.

II. DESCRIPTION OF THE COMPANY'S PROPOSAL

The Tennessee Precedent Agreement provides for Bay State to contract with Tennessee for incremental Zone 6 to 6 mainline capacity, pursuant to the recourse rate under Tennessee's rate schedule FT-A, for a term of ten years commencing on or about November 1, 2004, or as soon as all required facilities are constructed (Exh. BSG-2, at 6; exh. FCD-1). The proposed agreement is for a maximum daily quantity of 17,000 Dth that will have a primary receipt point at Tennessee's Dracut interconnect with the joint facilities of the Maritimes and Northeast Pipeline and the Portland Natural Gas Transmission System (Id.). The delivery point for the Zone 6 to Zone 6 capacity will be at a proposed interconnection with a new lateral to be constructed by Tennessee ("Tewksbury-Andover Lateral")(id.). The Company states that the Tennessee Precedent Agreement will fill a portfolio need created by the expiration of Bay State's non-renewable El Paso Peaking Service Agreement previously approved in D.T.E. 01-62 (Exh. BSG-1, at 4).

Because the service to Lawrence requires Tennessee to construct a new lateral, Bay State proposes to also purchase 17,000 Dth per day of incremental lateral service pursuant to Tennessee's Rate Schedule FT-IL (Exh. BSG-2, at 6, Exh. FCD-1, exh. A). This FT-IL service will be pursuant to an agreement with an initial term of ten years beginning on or about July 1, 2004, or as soon as all required facilities are constructed (id.). The rate paid by the Company is individually negotiated (Exh. BSG-2 at 6; Exh. FCD-1, exh. C). Under the FT-IL Agreement, the primary receipt point will be the proposed interconnection between Tennessee's Concord Lateral and the proposed Tewksbury-Andover Lateral. The primary delivery point will be the proposed meter station serving Bay State's Lawrence Division at the end of the proposed Tewksbury-Andover Lateral(Exh. BSG-2, at 6-7).

As part of its obligation under the agreement, Tennessee will construct, at no cost to the Company, 5.1 miles of 8-inch high-pressure lateral facilities extending from its mainline facilities to a new gate station located in Andover, Massachusetts (Exh. BSG-2, at 8; DTE 1-8). Bay State will construct new facilities necessary to tie the new service into its distribution system as well as an industrial regulator station to serve the Wyeth Facility[1] (Exh. BSG-2, at 8).

Tennessee has also agreed to construct a new gate station, at its expense, located in South Andover, Massachusetts (Exh. BSG-2, at 9). Bay State explains that this new delivery point provides the Company with a second feed off Tennessee to serve its Lawrence Division, which will significantly improve operating pressures in that remote section of the Lawrence Division, and provide reliability in the area (Exh. BSG-2, at10; Exh. DTE 1-1). The Company also notes that the Tennessee Precedent Agreement offers diversity benefits by allowing Bay State to access gas supplies off of the Joint Facilities System[2], further diversifying Bay States's portfolio (Exh. BSG-2, at 21).

III. DISCUSSION

A. Standard of Review

In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for the acquisition of capacity under Section 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U. 94-174-A, at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent

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1 A Special Transportation Agreement between Bay State Gas Company and Wyeth Pharmaceuticals, Inc, GC 03-14, was approved by the Department on September 8, 2003.

2 The Joint Facilities System is a 36-inch pipeline system running from Westbrook, Maine to Dracut, Massachusetts, which is jointly owned by the Portland Natural Gas Transmission System and the Maritimes and Northeast Pipeline (Exh. DTE 1-11).

with the public interest, an LDC must show that the acquisition (1) is consistent with the company's portfolio objectives, and (2) compares favorably to the range of alternative options reasonably available to the company and its customers, including releasing capacity to customers migrating to transportation, at the time of the acquisition or contract renegotiation. Id.

In establishing that a resource is consistent with the company's portfolio objectives, the company may refer to portfolio objectives established in a recently approved resource plan or in a recent review of supply contracts under G.L. c. 164, § 94A, or may describe its objectives in the filing accompanying the proposed resource. Id. In comparing the proposed resource acquisition to current market offerings, the Department examines relevant price and non-price attributes of each contract to ensure a contribution to the strength of the overall supply portfolio. Id. at 28. As part of the review of relevant price and non-price attributes, the Department considers whether the pricing terms are competitive with those for the broad range of capacity, storage and commodity options that were available to the LDC at the time of the acquisition, as well as with those opportunities that were available to other LDCs in the region. Id. In addition, the Department determines whether the acquisition satisfies the LDC's non-price objectives including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

B. Analysis and Findings

The Department finds that the Bay State’s contract with Tennessee, set forth in the Precedent Agreement, is consistent with the portfolio objectives and the supply planning process established in the Company’s most recent Forecast and Supply Plan approved by the

Department in Bay State Gas Company, D.T.E. 98-86 (2000). Bay State demonstrated that its planning process included a solicitation of bids to determine the best-cost resource to satisfy the incremental resource requirements of its Lawrence Division. Additionally, Bay State has shown that the Tennessee Precedent Agreement compares favorably to the range of alternatives reasonably available to the Company and its customers. In reviewing the price attributes of the Tennessee Precedent Agreement, the Department finds that the Tennessee Precedent Agreement is preferable to Bay State's other alternatives and offers additional savings as a result of Tennessee's agreement to pay for the costs of a new lateral and gate station in Andover, Massachusetts. The evidence demonstrates that the Tennessee Precedent Agreement offers reliability through primary point delivery to Bay State's Lawrence Division and enhances system pressure and diversity by introducing a new pipeline supply to the Lawrence Division. The Department finds that the resource acquisition from the Tennessee Precedent Agreement provides both price and non-price advantages compared to the alternative resource options. Additionally, the Department finds that the conditions of the Tennessee Precedent Agreement will enhance flexibility and diversity and will provide a cost-effective approach to managing system pressures in the Lawrence Division.

V. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That the Precedent Agreement between Bay State Gas Company and Tennessee Gas Pipeline Company filed on August 7, 2003 is hereby approved.

By Order of the Department,

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Paul G. Afonso, Chairman

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James Connelly, Commissioner

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W. Robert Keating, Commissioner

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Eugene J. Sullivan, Jr., Commissioner

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Deirdre K. Manning, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).